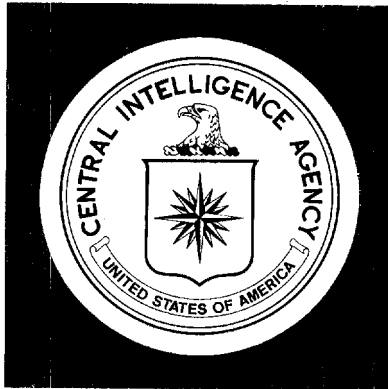


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WEST GERMANY - FRANCE: Recent French decisions to break ranks with the EC on monetary and energy matters have severely shaken West German confidence in prospects for EC unity, and may have induced Bonn to rethink the basic tenets of its foreign policy.

West German hopes for making significant strides toward EC unity while Bonn is in the EC Council chair this winter and spring were dealt a sharp setback by Paris' decision to float the franc.

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Bonn is still not prepared to abandon hope for progress during its chairmanship, but there is a sense of merely soldiering on. Finance Minister Schmidt, speaking in London last week, reaffirmed Bonn's call for a coordinated European effort toward finding a solution to world energy and monetary problems. Schmidt indicated that the remaining five partners would continue the common currency float in the hope that "others"--read France--would join.

The US Embassy believes that Bonn is taking a long, hard look at its foreign policy in light of the recent setbacks suffered by the European Communities, the hardening Soviet and East European attitudes toward the Federal Republic, and uncertainties about the continued US military presence in

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Europe. The crosscurrents influencing the foreign policy outlook are evident in the fact that some quarters in Bonn are increasingly convinced of the importance of continued close ties to the US, while others are advocating a more conciliatory line toward Moscow and its allies.

As for the Communities, the US Embassy believes that Bonn will ultimately provide enough leadership and resources to give the EC direction, but not enough to move Western Europe into a new, higher stage of economic and political cooperation.

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UK: The unanimous decision by the miners' leaders to go ahead with a national strike next Sunday is a clear challenge to Prime Minister Heath's ability to govern, and may oblige him to call an early election.

Heath's response to the miners' announcement suggests that the government is not prepared to make further concessions to avert a strike. Heath accused the miners of being unwilling to compromise, and Secretary of State for Employment Whitelaw commented that "no government could have been more reasonable."

The miners' decision followed a deadlocked meeting on Monday between Heath and representatives of the Trades Union Congress (TUC) at which they debated using a Pay Board report, which establishes various pay scales for workers by occupation, as a way to meet the miners' demands. Heath's conditions--acceptance of the Coal Board pay offer, cessation of the overtime ban, and no strike threat--plus the TUC's unwillingness to apply the Board's report to the miners' case led to the impasse.

Because negotiations have failed and there is no effective legislation to deal with the current crisis, Heath may be forced to call an early election. The miners may still refuse to return to work even if Heath's conduct is endorsed by a Tory victory. Heath might propose a wage-price freeze as the next stage of his counterinflation program, and he would probably try to get Parliament's approval for sterner industrial relations legislation.

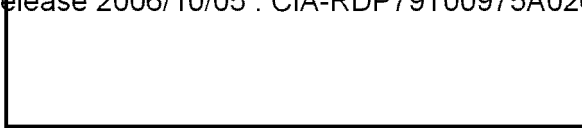
Both the Tories and the Labor Party would prefer to avoid an election fought on the question of whether the government or the unions rule Britain. Such an election is bound to be bitter and divisive, with overtones of class conflict. Neither party seems to have a decisive lead in the latest opinion polls.

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A miners' strike in itself will cause a variety of economic problems, and if the TUC fulfills its pledge made last month to throw the full support of its 10 million members behind the miners, economic chaos is likely to result. Strikes would add to the already mounting trade deficit, ensure a negative economic growth rate, and fuel rising unemployment. Britain has been on a three-day workweek since the beginning of the year, and the government has threatened to cut back further if a strike occurs.

The miners' ban on working overtime, in effect for nearly three months, has reduced coal production by roughly 30 percent. The government now estimates that the power stations' coal stocks will carry the country only through March.



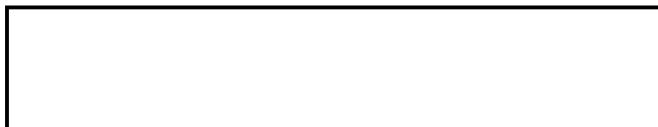
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EGYPT: President Sadat may have postponed his planned cabinet reorganization to avoid giving an impression that Egypt regards the Arab-Israeli conflict as over and has let down its military guard. A postponement should not, however, foreclose the planned reconstruction program or the moves toward economic liberalization that were to be a product of the cabinet shuffle.

Ihsan Abd al-Quddus, a prominent Cairo journalist who on occasion has seemed to be speaking for Sadat and who has rivaled the recently dismissed Muhammad Hasanayn Haykal for the status of Egypt's leading editorial commentator, noted in his column on February 2 that a cabinet change had probably been shelved because of too much publicity. Asserting that this was only his own view, Quddus said the public had interpreted the possible reorganization as signaling "a state of relaxation" that would permit full concentration on reconstruction to the detriment of continued efforts to regain Arab territory.

The cabinet reorganization, which was the subject of considerable discussion last month, would have brought Economy Minister Hijazi to the prime ministership, a post Sadat himself has held along with the presidency for the past year. Hijazi has been heavily involved in a revived program of economic liberalization that Sadat has been attempting to implement for some months. With or without a cabinet change, Sadat will probably continue with plans for reconstruction and economic liberalization.

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CHINA: The ongoing campaign to criticize the ancient sage Confucius has moved into a new phase. Peking apparently issued instructions late last month to make the campaign a priority task. The propaganda media are devoting almost exclusive attention to it, and the Chinese are waiting in line to buy newly published anti-Confucius material.

An editorial in the official party newspaper on February 2 indicated that the campaign has Mao's personal endorsement and called on "every leading comrade" to take a stand. Terming the drive a "mass political campaign," a "thoroughgoing revolution," and a "war," the editorial noted that the campaign is linked with the "current class struggle."

The campaign is the largest political movement in China since the Cultural Revolution of the mid-1960s, but its objectives appear more limited. The editorial injected a note of caution, warning cadre to "keep firmly to the general orientation" of the struggle. Provincial broadcasts have echoed this theme and have called for discipline in carrying out the campaign. Many Chinese and foreign observers have speculated that the drive is aimed at someone in the current leadership. The Cultural Revolution, by contrast, was an attempt to shake up the entire Chinese party and government apparatus.

The campaign has contributed to heightened political tensions. Policy debates, particularly in the fields of culture and education, are being waged in the media almost daily. Western music has come under attack, and a Western film maker has been denounced for an unflattering portrayal of life in China. Foreign diplomats in Peking have noted that domestic political tensions are being reflected in the increasingly standoffish behavior of Chinese officials. [REDACTED]

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JAPAN: Prime Minister Tanaka has taken bold action to contain Japan's soaring inflation. On February 4 he summoned 85 top business leaders representing all of Japan's major business organizations and warned that the government would have to intervene unless commodity prices were controlled.

Tanaka got the businessmen to agree to make no further price increases until after March without government approval. The businessmen also agreed to cooperate with the government and accepted the principle that excess profits taxes should be imposed where necessary. The government is now studying legislation along these lines which it hopes to pass with the cooperation of the opposition parties.

Tanaka's warning to the businessmen that the government would impose greater controls on private borrowing will improve his political position. Tanaka lately has been under more than usual criticism for his failure to provide leadership to combat inflation. This tactic may backfire in the long run, however, if consumer prices continue to rise and the government does not respond with firm controls as the Prime Minister has promised. [REDACTED]

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JAPAN: The yen continued to strengthen against the dollar yesterday, and has now risen nearly 2 percent in the past week. The Bank of Japan has not intervened in the money market since January 25, the longest lull in about two years. The money market remains extremely sensitive, however, because of economic uncertainties at home and abroad.

Dollars that were being held by exporters when the yen was under heavy downward pressure are now being traded. Easing of limits on advance payments for ships has led to additional dollar inflows, and exports in general are picking up. An official estimate shows exports for January up by about 40 percent over January 1973. In response to relaxation of restraints on overseas borrowing, forward rates for the yen have also strengthened--i.e., the price in yen for dollars for future delivery has dropped.

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FOR THE RECORD

POLAND-EGYPT: Warsaw has offered to participate in a number of major projects in Egypt, including the supply of machinery and equipment for the iron and steel industry, the Abu Tartur phosphate mines, a zinc factory, electrification, and the chemical industry. Poland also has joined a growing list of countries offering to help finance the re-opening of the Suez Canal.

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